

AMERICAN FRIENDS OF MIGDAL OHR

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

DECEMBER 31, 2017

AMERICAN FRIENDS OF MIGDAL OHR

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Independent Auditor's Report

**Board of Directors
American Friends of Migdal Ohr**

Report on the Financial Statements

We have audited the accompanying financial statements of American Friends of Migdal Ohr, which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Friends of Migdal Ohr as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited American Friends of Migdal Ohr's December 31, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 14, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Loeb & Troper LLP

August 14, 2018

AMERICAN FRIENDS OF MIGDAL OHR

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017

(With Summarized Financial Information
for December 31, 2016)

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 1,119,555	\$ 1,464,961
Pledges receivable - net (Note 6)	847,942	1,473,103
Prepaid expenses and other assets	19,140	13,980
Fixed assets - net (Note 3)	<u>14,771</u>	<u>22,264</u>
Total assets	<u>\$ 2,001,408</u>	<u>\$ 2,974,308</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	<u>\$ 34,511</u>	<u>\$ 51,570</u>
Net assets (Exhibit B)		
Unrestricted	153,024	716,288
Temporarily restricted (Note 4)	<u>1,813,873</u>	<u>2,206,450</u>
Total net assets	<u>1,966,897</u>	<u>2,922,738</u>
Total liabilities and net assets	<u>\$ 2,001,408</u>	<u>\$ 2,974,308</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

AMERICAN FRIENDS OF MIGDAL OHR

EXHIBIT B

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017
 (With Summarized Financial Information
 for the Year Ended December 31, 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
			<u>2017</u>	<u>2016</u>
Revenues and other support				
Contributions	\$ 1,794,918	\$ 1,702,218	\$ 3,497,136	\$ 4,394,250
Special event revenue	\$ 411,091			
Less direct cost of special events	<u>(145,390)</u>			
Net special event revenue	265,701		265,701	321,407
Interest	3,332		3,332	1,148
Loss on sale of real estate				(39,203)
Net assets released from restrictions (Note 4)	<u>2,094,795</u>	<u>(2,094,795)</u>		
Total revenues and other support	<u>4,158,746</u>	<u>(392,577)</u>	<u>3,766,169</u>	<u>4,677,602</u>
Expenses (Exhibit C)				
Program services -				
Education and social guidance	3,671,914		3,671,914	5,047,543
Management and general	473,409		473,409	266,199
Fund raising	<u>576,687</u>		<u>576,687</u>	<u>679,121</u>
Total expenses	<u>4,722,010</u>		<u>4,722,010</u>	<u>5,992,863</u>
Change in net assets (Exhibit D)	(563,264)	(392,577)	(955,841)	(1,315,261)
Net assets - beginning of year	<u>716,288</u>	<u>2,206,450</u>	<u>2,922,738</u>	<u>4,237,999</u>
Net assets - end of year (Exhibit A)	<u>\$ 153,024</u>	<u>\$ 1,813,873</u>	<u>\$ 1,966,897</u>	<u>\$ 2,922,738</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

AMERICAN FRIENDS OF MIGDAL OHR

EXHIBIT C

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017
(With Summarized Financial Information
for the Year Ended December 31, 2016)

	<u>Program Services - Education and Social Guidance</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Direct Cost of Special Events</u>	<u>Total</u>	
					<u>2017</u>	<u>2016</u>
Transmissions to Migdal Ohr-Israel	\$ 3,671,914				\$ 3,671,914	\$ 5,047,543
Salaries		\$ 88,430	\$ 265,290		353,720	480,920
Payroll taxes, employee benefits		16,003	48,008		64,011	126,565
Professional fees		58,567			58,567	31,343
Rent (Note 5)		8,054	24,161		32,215	31,395
Telephone		2,826	8,477		11,303	11,617
Printing and postage		19,820	59,459		79,279	76,920
Office supplies		7,157	21,470		28,627	38,880
Travel		4,300	12,899		17,199	33,210
Insurance		1,735	5,204		6,939	8,176
Equipment rental/maintenance		4,920	14,759		19,679	17,948
Catering and facility rental				\$ 145,390	145,390	116,207
Advertisement			109,971		109,971	40,046
Board meetings and conferences		456	1,369		1,825	19,329
Bad debts		241,301			241,301	
Bank charges and other fees		17,170			17,170	16,708
Depreciation and amortization		1,873	5,620		7,493	7,493
Miscellaneous expenses		797			797	4,770
Total expenses	3,671,914	473,409	576,687	145,390	4,867,400	6,109,070
Less expenses deducted directly on the statement of activities (Exhibit B)						
Direct cost of special events				(145,390)	(145,390)	(116,207)
Total expenses reported by function on the statement of activities (Exhibit B)	\$ 3,671,914	\$ 473,409	\$ 576,687	\$ -	\$ 4,722,010	\$ 5,992,863

See independent auditor's report.

The accompanying notes are an integral part of these statements.

AMERICAN FRIENDS OF MIGDAL OHR

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2017
 (With Summarized Financial Information
 for the Year Ended December 31, 2016)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ (955,841)	\$ (1,315,261)
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation and amortization	7,493	7,493
Loss on sale of real estate		39,203
Decrease (increase) in assets		
Pledges receivable	625,161	637,536
Prepaid expenses and other assets	(5,160)	(6,104)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(17,059)	49,190
Net cash used by operating activities	<u>(345,406)</u>	<u>(587,943)</u>
Cash flows from investing activities		
Proceeds from sale of real estate		1,147,835
Purchases of fixed assets		<u>(2,631)</u>
Net cash provided by investing activities		<u>1,145,204</u>
Net change in cash and cash equivalents	(345,406)	557,261
Cash and cash equivalents - beginning of year	<u>1,464,961</u>	<u>907,700</u>
Cash and cash equivalents - end of year	<u>\$ 1,119,555</u>	<u>\$ 1,464,961</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

AMERICAN FRIENDS OF MIGDAL OHR

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

American Friends of Migdal Ohr (“AFMO”) was incorporated as a not-for-profit corporation in New York State on July 31, 1986. Its primary purpose is to raise funds for Migdal Ohr institutions in Israel that provide education and social guidance to children from underprivileged and problem homes. In addition, AFMO has a responsibility to raise awareness about Migdal Ohr and its programs to its constituents in the United States. AFMO’s primary source of revenue is from contributions.

AFMO is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The financial statements are prepared on the accrual basis of accounting.

Use of estimates - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents - Cash and cash equivalents are comprised of highly liquid investments that mature in three months or less from date of acquisition.

Pledges receivable - Unconditional pledges receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Allowance for doubtful accounts - AFMO determines whether an allowance for uncollectibles should be provided for pledges receivable. Such estimates are based on management’s assessment of the aged basis of the pledges, subsequent cash receipts, current economic conditions and historical information. Pledges are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted.

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AMERICAN FRIENDS OF MIGDAL OHR

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets - Fixed assets are recorded at cost. Donated assets are recorded at fair value at the date of the donation. Acquisitions of \$500 or more with an estimated useful life of more than one year are capitalized.

Depreciation and amortization - Depreciation of fixed assets is calculated on the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is calculated on the straight line method over the shorter of the estimated useful life of the assets or the term of the lease, whichever is shorter. The estimated useful lives are as follows:

Office equipment	5 years
Computer software	5 years
Leasehold improvements	5 years

Unrestricted net assets - Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors.

Temporarily restricted net assets - Temporarily restricted net assets are those funds whose use has been limited by donors to a specific time period or purpose.

Contributions - Unconditional private grants and contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. AFMO reports gifts of cash and other assets, received from foundations, corporations and the general public as restricted support if they are with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. When applicable, in-kind contributions are reported at fair value at the date the contribution is received.

Special events - AFMO conducts a special event in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. All proceeds received are recorded as special events revenue in the accompanying statement of activities.

Functional allocation of expenses - The costs of providing services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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AMERICAN FRIENDS OF MIGDAL OHR

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Rent expense - AFMO leases office space and equipment. All leases are operating leases. All leases are reflected on the straight-line basis. Deferred rent is recorded where there are material differences between the fixed payment and the rent expense.

Transmissions to Migdal Ohr-Israel - All transmissions to Migdal Ohr-Israel or other educational and charitable institutions in Israel and the United States are recorded pursuant to authorization by the Executive Board of AFMO.

Summarized financial information - The financial statements include certain prior-year summarized comparative information in total but not by net asset class and functional expense. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with AFMO's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Uncertainty in income taxes - AFMO has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending December 31, 2014 and subsequent remain subject to examination by applicable tax authorities.

Subsequent events - Subsequent events have been evaluated through August 14, 2018 which is the date the financial statements were available to be issued.

NOTE 3 - FIXED ASSETS

Fixed assets consist of the following:

Office equipment	\$ 57,736
Leasehold improvements	30,185
Computer software	<u>25,570</u>
	113,491
Less accumulated depreciation and amortization	<u>(98,720)</u>
Net	<u>\$ 14,771</u>

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AMERICAN FRIENDS OF MIGDAL OHR

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2017 temporarily restricted net assets were available for the following purposes:

Art, fashion and design programs	\$ 2,000
Bridal Fund	969
Bar Bat Mitzvah Sponsorship	24,352
Carpentry room	10,000
Gan Yavne Academic College	17,097
Special Projects	330,123
Mevashlim L'atid	500
Sulamot Music School	101,060
Girls Elementary School Science Lab	993
Yaldei Ohr	277
Security campaign	1,610
Prisoner rehabilitation	300,200
Capital Building Project	200,000
Periods after December 31, 2017	<u>824,692</u>
Total	<u>\$ 1,813,873</u>

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes of providing scholarships and related expenses for the following programs:

Bridal Fund	\$ 472,979
Bar Bat Mitzvah Sponsorship	7,500
Midreshet Hasalil	25,000
Gan Yavneh Academic College	52,500
Ohr Israeli Youth	515,000
Machshava Music School	67,926
Mishpactonim Dormitory Renovation	551,314
Shalhevet High School	30,000
Security Campaign	1,000
Mitchell Dormitory Renovations	125,000
Sulamot Music School	118,426
Girls Elementary School Science Lab	51,000
Zoharim Agricultural- Educational Youth Village	60,000
Girls Dorm	15,000
Day Care Center	<u>2,150</u>
	<u>\$ 2,094,795</u>

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AMERICAN FRIENDS OF MIGDAL OHR

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017

NOTE 5 - LEASE COMMITMENT

On November 1, 2015, AFMO entered into a new lease for a larger office space. The lease is for five years and expires on October 31, 2020. Rent expense for year was \$32,215. Minimum future payments under the terms of the lease are as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 31,986
2019	32,946
2020	<u>28,138</u>
Total	\$ <u>93,070</u>

NOTE 6 - PLEDGES RECEIVABLE

<u>Year</u>	<u>Amount</u>
2018 and past due of \$23,250	\$ 344,858
2019	231,350
2020	186,250
2021	73,100
2022	40,350
Thereafter	<u>30,000</u>
Total	905,908
Discount on pledges receivable	(7,966)
Allowances for doubtful pledges receivable	<u>(50,000)</u>
Net	\$ <u>847,942</u>

The contributions have been discounted over the payment period using a discount rate of 1.5%.

Approximately 63% of AFMO's gross contributions receivable is from three donors.

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AMERICAN FRIENDS OF MIGDAL OHR**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2017****NOTE 7 - CONCENTRATION**

Financial instruments which potentially subject the entity to a concentration of credit risk are cash accounts with a financial institution in excess of FDIC insurance limits.

Approximately 30% of AFMO's contributions is from seven donors.

NOTE 8 - DEFERRED COMPENSATION PLAN

In June 2016, AFMO established a deferred compensation plan under Section 457(b) of the Internal Revenue Code for certain eligible employees, defined by AFMO as its Board of Directors. Under the terms of the 457(b) Plan, eligible employees may contribute amounts through a salary-reduction agreement. AFMO does not contribute to this plan.